64. Roscitt has admitted to the media that he "***knew***" the Business Services unit's revised and increased growth rates announced in 12/99 were false when he saw the 1/00 results – of which he "quickly" informed Armstrong. However, he and Armstrong decided not to disclose this information then, but rather, to wait for the 2/00 and 3/00 results which, of course, were even worse. Still, they made no disclosure, waiting to complete the AT&T Wireless offering. Armstrong has reportedly stated:

> "***Where the problem happened, I'm accountable, but I don't operate quite at that level,***" Mr. Armstrong said. "***The relationships, the administrative support, the skill coverage in those accounts was not carefully managed and we lost the kind of proposing, anticipating and customer-relationship role. And we've got to redo that. And you don't do that in weeks or months. It's going to take quarters.***"

D. Cable Upgrade/Broadband Build-Out Delays and Overruns

65. As part of Armstrong's diversification and acquisition binge, AT&T acquired a number of regional and local cable TV operations, including the cable TV giant TCI. However, most of the cable TV systems AT&T acquired, including TCI, had extremely antiquated and run-down equipment which could not possibly deliver the kind of high-quality telephone, cable and Internet access services which were necessary for AT&T to effectively and efficiently deliver bundled services or effectively compete with other companies who could. As a result, AT&T commenced a huge broadband/cable upgrade project, *i.e.*, the broadband build-out, to replace AT&T's existing cable TV infrastructure with new, technologically advanced, broadband capability, which supposedly, if successfully deployed, would permit two-way interactive communications, as well as the delivery of a broad array of telecommunications services. AT&T consistently represented to investors and analysts that this broadband build-out could be largely and successfully completed by year-end 00 and that the strong positive cash flow from AT&T's domestic long-distance operations and the profits provided by AT&T's Business Services long-distance operations would carry AT&T along, while the broadband build-out was being pursued and completed.

66. During the Class Period, AT&T represented to investors and analysts that the broadband build-out was on schedule and on budget. In fact, at critical times, Armstrong stated that the build-out was actually ahead of schedule and under budget and that AT&T would achieve the broadband build-out per unit or per household lower than originally anticipated. As the broadband

build-out proceeded during 99 and early 00, AT&T told investors and analysts that though the build-out had been completed, consumer demand for AT&T's new bundled services was extraordinarily strong and exceeding expectations and that AT&T was effectively and efficiently delivering bundled services to customers over the new technologically enhanced broadband network. However, none of this was true. In truth, AT&T was having extraordinary difficulty in completing the broadband build-out which was not only behind schedule and over budget, but being plagued by persistent technological problems which not only slowed the build-out and increased its costs, but resulted in the ultimate service provided being of lower-quality than anticipated, which hurt customer demand for the new bundled services. The broadband build-out was extremely challenging from a technological standpoint. Unfortunately for AT&T, it could not overcome many of the technological obstacles it was encountering. Also, because of employee cut-backs, AT&T was forced to rely on independent contractors for a significant part of the broadband build-out and utilize contractors who lacked the necessary skill and experience to handle this technologically challenging project.

67. AT&T was experiencing several severe problems with the installation/conversion of its cable lines to make them suitable for voice phone calls. By late 99, there was a severe shortage of qualified technicians to perform the conversion. The technology required that they be computer, software, telephone and digital technicians. Not only was there a shortage of qualified workers, but the rapidly changing face of the cable industry required workers to retool continually and costs had escalated far beyond AT&T's initial forecasts, resulting in a larger upgrade cost per household, not a lower cost per household. Installation problems were further exacerbated by the fact that in many locales, AT&T used poorly trained contractors rather than its own employees to do local service installations. This is complex work and required well-trained cable technicians. But AT&T had no control over the training and quality of the work of the contractors it used. The result was very poor service. The development of the cable network was resulting in accidents where AT&T technicians would rupture other utility lines, delaying installation, creating liability to AT&T and further increasing costs. On 3/2/00, AT&T technicians laying telecom cable hit a sewer line and ruptured a 12-inch gas main, causing gas to leak into several homes in Hempfield, PA. The resulting explosion

caused injuries, severe damage and the evacuation of 100 homes. It turned out that the AT&T contractor overseeing the installation had been using immigrants from Mexico without proper training.

68. A key part of AT&T effectively and efficiently delivering bundled services was the successful upgrade of AT&T's broadband/cable network, which was, in fact, behind schedule and over budget, such that the per-unit or per-household cost of the build-out was going to be close to double what was originally projected, which would cost AT&T billions of dollars more than originally forecast and badly undermine the economics of the broadband build-out/cable upgrade project. In addition, the effective and efficient delivery of bundled telecommunications services required that AT&T successfully integrate the day-to-day operations of its cable, Internet access, local and long-distance operations so that customers could enjoy the benefits of one-stop shopping and unified billing. Only if these two keystones were achieved could AT&T get the benefits of delivering bundled services, *i.e.*, reduced customer churn, increased customer loyalty and increased revenue per customer – leading to increased revenue and EPS growth for AT&T. However, AT&T had never successfully integrated the day-to-day operations of the several companies it had acquired during the past few years. Contrary to AT&T's representations, as a result of the failure to integrate the operations of these various companies that AT&T had acquired, AT&T's customers were unable to obtain bundled services by calling a single AT&T service or subscription center. Nor could they obtain unified billing for separate services because AT&T had never created a unified billing system for its customers. These problems and shortcomings, on top of AT&T's persistent service and billing irregularities and errors, simply made the effective and efficient delivery of bundled telecommunications services a mirage – something AT&T simply could not achieve.

E. Inability to Effectively and Efficiently Deliver Bundled Services

69. During 97-99, AT&T spent $110 billion buying local and regional cable and wireless companies in order to transform itself into an "all service, any distance" provider of telecommunications services. According to AT&T, this was because ***"[c]ustomers want the convenience of one-stop shopping."*** Bundling is the future in the modern communications environment. Bundling adds revenue from existing customers at little extra cost. Bundling helps retain customers, since customers who buy multiple services are less likely to switch carriers. As

Zeglis told analysts on 12/6/99, "***Bundles result in higher customer satisfaction, reduced churn, incremental product revenue and new customers.***" However, AT&T could not successfully execute its bundling strategy in the residential and small business markets. Despite the $110 billion AT&T spent on acquisitions, it failed to provide the human and technical resources necessary to integrate the diverse operations it had acquired. "One-stop shopping" was a mirage at AT&T. During the Class Period, AT&T was never able to effectively and efficiently deliver bundled services, leaving it at a competitive disadvantage in relation to the other integrated telecommunications companies.

70. For AT&T, bundling was necessary to save its long-distance consumer business. Bundling could turn a $30 a month long-distance customer into a $225 a month local, long-distance, digital cable, high-speed Internet access, and wireless customer for AT&T. Other telecom leaders, including SBC, Verizon, Sprint, and Qwest, were successfully pursuing integration strategies. At Qwest, a residential or small business customer could order local, wireless, and high-speed Internet access with one phone call and on one bill – reducing the cost of selling by one-third. But it ***took three different calls and three different bills to place the same order at AT&T***! Verizon cited "growth through bundling" as its competitive strength. SBC's goal is to be "the only communications company our customers will ever need." Bundling long distance and local services to consumer had paid off for SBC in Texas and for Verizon in NY, with 10% and 16% market share, respectively, in the 3rdQ 00. ***Customers wanted bundled services.*** But a consumer's confusing and frustrating journey through the AT&T labyrinth is set forth below:

- Long Distance. The AT&T call centers that handle long distance could not handle wireless, cable, or Internet access sales. Outside vendors with whom AT&T contracted to take long-distance service calls could not handle bundled service requests either.

- Local Service. A customer who wanted local service through the cable system got transferred to one of 10 "Metro Markets" call centers to place an initial order for local service. The Metro Markets call centers operated under a separate call channel from the consumer long distance sales and service offices. No other AT&T services can be included on the bill.

- Wireless. AT&T Wireless operated a completely separate sales and service operation. The customer service representative at the local or long-distance call center could not transfer the customer to AT&T Wireless; the customer had to hang up and dial a separate 800 number to reach an AT&T Wireless service center. Local service could not be bundled onto the bill.

- Cable. An AT&T customer had to place a separate call to the local cable operator to order cable service. There was no bundled billing or bundled customer care for cable service.

Local telephony, cable modem, and cable TV had to be billed and handled by separate operations.

- Internet Access. The customer had to make another call to order Internet access from AT&T. For narrowband dial-up service, the customer called WorldNet, a separate 800 number. But no one answered that line – it was a voice-response system. For broadband cable Internet access, the customer had to call a different number. The customer could not bundle a bill for any other AT&T service.

71. Seven years after its purchase of McCaw Cellular, AT&T could still not integrate its long-distance and wireless customer account and billing systems into one integrated AT&T system. Instead, service reps had to enter customer orders into separate wireless and long-distance systems – which are then supposed to flow through automatically into an integrated customer account and billing system. But the wireless information did not flow through. As a result, many customers received monthly bills without their wireless charges. They called to complain, alerting AT&T to the problem. Frequently, it took several months for a customer to get the wireless portion of the bill. This was a problem since AT&T started to try to bundle wireless and long distance over two years earlier – and AT&T could not solve the problems.

72. AT&T also had not integrated the WorldNet Internet access billing system into its so-called integrated system. As a result, some AT&T WorldNet customers did not receive a bill for Internet access for more than a year after enrollment. Later, AT&T had to eliminate WorldNet from its bundled service offering. Customer service representatives received calls from angry customers who saw WorldNet had been dropped from the bundled bill option. Today, AT&T provides a scaled-down bundled long-distance/wireless bill, but only to wireless customers after six months of service. These customers cannot add local service to the wireless/long-distance bundled bill. AT&T Wireless customer service representatives told customers "[w]e're two companies," and turned down requests for a bundled service and bill. In fact, AT&T "bundled service" customer service representatives could not provide true one-stop shopping.

73. During the Class Period, AT&T marketed a package called All in One to small businesses – one bill for local, long-distance, wireless, calling card, and 800 toll-free service. But AT&T had only separate customer account and billing systems for local, long distance, and wireless. The so-called long-distance/wireless bundled bill showed detail on long distance charges, but not for

wireless calls. It showed only a grand total for wireless. For detail on wireless calls, customers got a separate wireless statement, but were told, this "is not a bill." AT&T's bundled long-distance/wireless customers who had billing questions had to make two calls, one for wireless and one for long distance. So-called bundled service customer service representatives could not answer customer questions about the wireless portion of the bill. In many AT&T call centers, they could not pull up the wireless bill or customer record on their computers. They had to transfer customer questions regarding wireless charges to AT&T Wireless.

74. AT&T purportedly provided an "All in One" package to small businesses, which included local, long-distance, wireless, calling card, and 800 toll-free services all on one bill. However, as pleaded above, Wireless billing questions could not be handled by the so-called bundled services customer care representatives because they did not have access to and had not been trained on wireless billing systems. In addition, All in One small business customers experienced many problems when ordering AT&T's local service. AT&T's small business customers received local service through Local Network Service ("LNS"), the division that AT&T acquired when it bought Teleport in 98. LNS provided businesses local service over its own networks or through resale of incumbent carriers' local loops.

75. In either case, the customer account and billing systems which were used for All in One accounts (which are AT&T legacy systems) had not been integrated with the systems used by LNS (which are legacy Teleport systems) for setting up, changing, and disconnecting service. Customer service personnel manually created the billing system for local service in a legacy Teleport system. Nothing was automated, creating many errors. Further, the systems could not "talk" to the All in One systems. When customers added a feature, canceled a service, or placed an order, this information had to be faxed "over the wall" to the business unit that handled that service. The information did not flow through into the All in One billing system. AT&T's manual input systems created errors, causing delay.

76. AT&T small business customer care representatives fielded hundreds of calls every day from small business customers about problems with their local service. As with residential

consumers, there were numerous problems coordinating billing with date of service and with customers not getting the features they ordered.

77. A particular problem for All in One small business customers was that the AT&T systems that were used to close a long-distance account did not flow through to the systems that disconnect the same customer's local or wireless service. Thus, many All in One customers who had closed their accounts continued to get billed for local or wireless service. The customer service representative had to fax a special request to the local service provisioning unit to ensure that local service was disconnected. The customer had to call a customer service representative at AT&T Wireless to cancel the wireless portion of the All in One bundled service package.

78. There was a large backlog in orders. Customers were told there was a 30-45 business day wait for new service installation. AT&T frequently failed to meet these due dates. Some customers waited up to 12 months for installation. At the end of 99, customer service representatives were told to cancel 12,000 local service orders that were long past their installation due dates. AT&T never called the customers to tell them that their orders had been cancelled.

79. AT&T established a Bill Review Team to analyze the problems in the billing system. They discovered millions of dollars in billing errors due to system problems. For example, they discovered that when a customer with a local/long-distance package disconnected the local service, billing continued on long-distance at the discounted bundled service rate. They discovered double billing problems – customers billed by the local and integrated systems. AT&T never fixed the system problems and disbanded the Bill Review Team to reassign the service representatives to work 9,000 backlogged orders.

80. AT&T's failure to integrate wireless and long distance systems is graphically evidenced by the two computers at the AT&T so-called bundled service customer care representatives' work stations. Frustrated that they could not provide the promised one-stop shopping to their customers, these employees repeatedly asked their managers for access to the AT&T wireless customer account and billing systems. Finally, AT&T installed a second computer at the workstations of some of these employees, giving them access to the wireless system or billing plans. But AT&T never trained them on the wireless system or billing plans. Thus, the so-called bundled service customer service

representatives still had to transfer most wireless billing questions to AT&T Wireless. The two computers in front of their work stations – one for long distance, the other for wireless – graphically highlight AT&T's failure to integrate long-distance and wireless bundled services. This operational failure by AT&T management jeopardized the ability of the Company to offer bundled services in an effective and efficient manner.

81. Having spent billions of dollars to purchase several antiquated cable systems (including TCI) by 99, AT&T was spending billions more to upgrade these systems to broadband status with two-way interactive capabilities so AT&T could provide cable TV, high-speed Internet access and local and long-distance services and other services over the line. But AT&T was not able to put systems in place to provide quality service. The cable upgrade/broadband build-out had been plagued by persistent service problems.

82. The source of many of these problems lies in AT&T's failure to integrate the automated systems for ordering, provisioning (setting up) and billing local service with AT&T's other customer account systems. Customer service representatives who service cable telephony customers reported huge numbers of customer complaints regarding service. Every day they fielded hundreds of calls from customers who were not getting the service they ordered, whose service was not installed on the due date, many of whom were without dial tones as a result. Customers complained that they were being billed for services they never ordered or for services that they had cancelled. In many instances, AT&T failed to bill customers for months after receiving service.

83. Customer service representatives were frustrated because system problems meant they often could not solve customers' legitimate complaints. For example, in response to customer complaints about billing prior to service installation, the customer service representative could credit the monthly account, but could not correct the underlying problem. That was because the source of the problem was a billing system that began billing the customer on the assigned due date. But if there was a service delay, as was often the case, the only way to stop billing was to change the service due date. This would further delay installation or possibly cancel the order. Many customers were forced to call every month to get billing errors credited because the service representative could not correct

the problem in AT&T's billing system for fear of cancelling or delaying the order in the ordering system.

84. In many locations, AT&T sold local service to customers before the networks were ready. AT&T offered promotions before its systems were ready to meet demand. For example, AT&T often offered free local service for six months to customers in selected locations. But it was not able to install the service for many of those customers in a timely fashion. AT&T cancelled installation appointments and never notified many of the customers of new appointment dates. Nor did AT&T notify customers whether the six-month free local service offer would still apply when and if service was finally turned on.

F. The AT&T Wireless New Subscriber Scam

85. Just as Armstrong and AT&T's other top executives were going on their campaign to boost AT&T's stock price in 10/99 and were finalizing their plans to announce the huge AT&T Wireless tracking stock IPO, they encountered a very serious problem in the AT&T Wireless unit – a sharp drop off in new subscribers. Since the AT&T Wireless unit was viewed as AT&T's growth engine, a slowdown in Wireless subscriber growth was a very alarming development as continuing strong growth in subscribers was the key metric to forecast the revenue growth for AT&T Wireless upon which AT&T's consolidated revenue growth was largely dependent. In order to try to conceal the adverse consequences of this development, when AT&T reported its 3rdQ 99 results on 10/25/99 and revealed that during the 3rdQ AT&T Wireless had obtained only 269,000 net adds, or new subscribers, far below the 450,000-500,000 anticipated, AT&T told analysts that the shortfall was due to a ***deliberate decision by AT&T to curtail marketing activity in key markets because AT&T Wireless was capacity-constrained in those markets*** and also due to such other temporary and one-time events as a shortage of cellular phones. AT&T also represented that these one-time problems were behind it, aggressive marketing had resumed, subscriber growth was again back on track and ***that AT&T Wireless anticipated obtaining at least 437,000 new subscribers in the 4thQ 99.*** These representations were indispensable to supporting AT&T stock and to the pricing of the AT&T Wireless tracking stock IPO, which AT&T's executives knew would take place in the Spring of 00.

86. However, these representations about AT&T Wireless were false. AT&T Wireless had suffered the sharp drop-off in new subscribers because AT&T Wireless service in several markets was so terrible that customers were refusing to sign up for the service, in part due to problems with AT&T's inferior TDMA technology. In addition, AT&T Wireless' service and billing problems were notoriously bad, resulting in customers cancelling the service and others refusing to sign up for it, which in combination led to greatly reduced net adds, or new subscribers. However, AT&T did not dare disclose these adverse facts. So instead, in addition to lying about the reasons for the decline in Wireless subscriber growth in the 3rdQ 99, in 10/99 AT&T Wireless began what was known as the transfer of authorization ("TOA") scam, detailed below, by which Wireless sales management encouraged, directed and assisted Wireless sales personnel in creating bogus new subscriber accounts to boost AT&T Wireless' apparent subscriber growth, so that AT&T Wireless would be able to report 4thQ 99 subscriber growth of over 437,000 new subscribers and 1stQ 00 new subscriber growth of at least 400,000 new subscribers – which metric or numbers would be reported early in 00, just as efforts to complete the Wireless tracking stock IPO kicked into high gear and, in 4/00, just before the IPO was priced and took off.

87. According to sources, the "biggest scam" at AT&T Wireless involved managers encouraging account executives to create bogus TOAs to artificially boost AT&T Wireless' subscriber growth rate/net adds. Managers openly encouraged account executives at their weekly sales meetings to perform the bogus TOAs. "Every single person" in one major sales office created bogus TOAs that were "totally illegal." Account executives would even take their lap-top computers home at night to do "illegal" TOAs. They were able to access business customers' AT&T Wireless accounts via company databases and utilize clients' credit information to create new accounts and receive commissions on those "sales." For example, an account executive would access the AT&T Wireless databases seeking clients who were associated with existing AT&T Wireless clients. As an example, using company ABC and company XYZ, company XYZ is related to ABC as a subsidiary or division or some other association. Both were AT&T Wireless customers. Account executives would check on ABC company's credit card and, if it was in good standing with AT&T Wireless, would open new cellular accounts under company XYZ's name using ABC's credit information. Account executives

had the authority to create new accounts for new cellular lines without going through other AT&T Wireless departments. The new accounts would have XYZ's name at the top of the account, but the mailing address and other information would be the same as company ABC's. The account executive would then "shut off" XYZ's original cellular numbers. Those numbers would then be transferred to a "recycle" bank that automatically places a 90-day hold on the numbers so they cannot be reassigned to other clients. This was done so clients who decided to reactivate their accounts within that 90-day period could retain their former cellular numbers. After transferring XYZ's original numbers to the recycle bank, the account executive would create new accounts for however many accounts he/she sent to the recycle bank. The new accounts would be under company XYZ's name with company ABC's credit information. The account executive would then call the "activation section" and request it to do a "manual override," which would allow the activation section to retrieve all of XYZ's accounts from the recycle bank and reassign them back to company XYZ. The account executive would explain to the activation section personnel that he/she had closed those accounts "in error" and needed them reinstated. The reinstatements took about 30 seconds to complete. The entire process to create the bogus TOAs could be accomplished within two minutes. If there was a possibility that company XYZ would be using the cellular lines during the time an account executive was creating the bogus TOAs, they would call the company and tell them their lines would be temporarily out-of-service while their accounts were being updated. This was done so company XYZ would never know about the activity that was actually occurring. Using the above-described method, account executives would create as many as "40, 50 or 60" new separate accounts "in one swoop." By creating bogus TOAs, the account executives received credit for new sales, were able to be "number one" sales performers and received bonuses of "thousands" of dollars. Some AT&T Wireless account executives were making "300 percent" of their sales quotas using this scam. The practice of creating bogus TOAs was engaged in by account executives with the knowledge of their sales managers. Higher levels of management allowed the bogus TOAs to be created "to enhance revenue."

88. After the close of the 3rdQ 99 in which wireless net adds/new subscribers fell off dramatically, in 10/99, AT&T Wireless account executives were instructed by managers to create fraudulent TOAs. Account executives received e-mails and voice messages instructing them to "go

ahead and do TOAs." Fraudulent TOAs could be created in two ways: (i) an AT&T Wireless business client could call the AT&T Wireless account executive responsible for his company's account and inform him/her that one of their employees had quit their job and taken the company's wireless phone with them. The AT&T client could then request the employee's account be taken off the company's account. The account executive would then take the employee's information and create a new account in "his personal name" without the employee being aware of it. The account executive would have a new sale and get paid commission for the TOA; or (ii) an AT&T Wireless account executive could go into AT&T's database and select a client name and other information and transfer that information to a new name and the old account would then "disappear." Each fraudulent TOA that an account executive completed was "like doing a sale on a new account." Each TOA a sales executive did counted as one sale toward his or her quota. Account executives received commissions on all these new sales. AT&T Wireless managers encouraged and approved of the account executives performing the fraudulent TOAs. They told them "do it [the TOAs] while you can" "because AT&T is paying you to do them right now." At the time they were instructed to do the fraudulent TOAs, which began in late 99, ***no one was meeting their sales quotas "all the way down, numbers were low." The managers instructed them to do the fraudulent TOAs to bring their numbers up***. Sales executives were instructed by their managers to do the fraudulent TOAs. It went "***all the way to the top***." They were doing this because ***"AT&T stock [value] was declining" and the Company needed to bring share value up. In one sales center alone, they created more than one hundred TOAs each and all the other account executives were also creating TOAs.***

89. Falsely "transferring accounts" was only one of many "scams" that were going on. Another scam involved shutting off and then reactivating accounts to generate bogus sales. Computer printouts from each AT&T Wireless sales office showed customer account activation/deactivation activity for each month during the Class Period. The printout identified business customers and account representatives, and showed the dates and times of shut-offs and deactivations of their accounts, the revenue generated by each account and the rate plan for each customer. The printouts showed that accounts were regularly shut off and then reactivated, and for each activation revenue was generated. Wireless representatives could generate "sales" without even leaving their homes if they

had access from their home computer. One representative in particular averaged 300 "lines" (account activations) per month, which was "super human" since 60-75 new lines was average. Wireless employees in the West Palm Beach, FL sales office alone generated tens of thousands of bogus shut-offs and reactivations per month, beginning in 10/99 and continuing through at least the Spring of 00. Wireless sales management told sales representatives to engage in scam practices to "beat" other sales offices, but to be forewarned that if they were caught, the Company would not stand behind them. Jim Haas, who was one of Armstrong's top assistants, was told about "all of the scamming" going on at AT&T Wireless.

90. One ex-AT&T Wireless employee complained to his superior in writing about the unethical nature of the TOAs and other scams being used to gain gross adds, and complained that he had raised his concerns about these wrongful practices with AT&T management on several occasions to no avail. He also reported a scam whereby sales executives were securing approval of bogus new lines, causing new phones to be shipped for purported customers who had no intention of opening accounts, who then returned the phones within the 90-day guarantee period. The employee complained that the TOA scam in particular falsely churned accounts. This same employee complained further of AT&T's poor bill processing, which negatively impacted his customer relations on a regular basis, and reported several large business accounts which experienced chronic billing problems.

91. AT&T's promotional/informational efforts for the Wireless IPO included the release, on 4/3/00, just as the Roadshow started, and on 4/24/00 – just three days before the IPO – of positive 1stQ 00 financial data for AT&T's Wireless unit. AT&T's 4/3/00 release stated: "Net wireless subscriber additions are expected to exceed 400,000 for the first quarter," and the 4/24/00 release stated: "***Net subscriber additions totaled 418,000 as compared to 372,000 in the first quarter of 1999***. Revenue growth was driven by this increase in the number of subscribers, as well as by subscribers' increased use of wireless services." These statements were false, as the AT&T Wireless new subscriber numbers were inflated due to the TOA and other scams pleaded above.

92. AT&T's 1stQ 00 results were publicly announced on 5/2/00 – ***21 working days after the close of the 1stQ 00, i.e., 3/31/00***! That was the largest number of working days past the close of

a 1stQ that AT&T took to report its 1stQ results in at least 10 years! The average number of days required for completion and release of AT&T's 1stQ results over the past 10 years has been 13.4 days, *i.e.*, here 4/18-19/00. The table below shows the number of working days that passed between quarter end and the release of AT&T's 1stQ results for each 1stQ since 12/31/90:

First Quarter Ended	Date Earnings Received	Working Days Since Quarter End*
03/31/00	05/02/00	21
03/31/99	04/27/99	18
03/31/98	04/20/98	13
03/31/97	04/21/97	15
03/31/96	04/17/96	12
03/31/95	04/19/95	12
03/31/94	04/20/94	13
03/31/93	04/21/93	14
03/31/92	04/15/92	11
03/31/91	04/17/91	13

* Number of working days between quarter end and press release, not including quarter-end date.

93. ***AT&T's top executives deliberately concealed and delayed the release of AT&T's 1stQ results until 5/2/00, so AT&T could pull off and close the huge IPO of its Wireless tracking stock and in the hope that it could keep AT&T stock trading at $57 or above until closing the MediaOne acquisition.*** AT&T was successful in one part of its scheme – it was able to complete the IPO of 360 million shares of AT&T's Wireless tracking stock at $29.50 per share raising $10.6 billion, compared to the $24.50 per share AT&T Wireless tracking stock fell to after AT&T revealed the adverse information about its core business long-distance operations and AT&T's growth on 5/2/00. However, AT&T was not successful with respect to the other part of its scheme as it could not get the MediaOne acquisition closed prior to the 5/2/00 revelation of that adverse information. Thus, because of the collapse of AT&T's stock to as low as $35-1/2 per share, AT&T had to pay the $3.6 billion cash guarantee on the MediaOne acquisition when it closed in early 6/00.

G. The Plan to Abandon the Bundling Strategy and Break Up AT&T

94. By 11/99, Armstrong's efforts to transform AT&T into a global telecommunications conglomerate which delivered bundled services of local and long-distance phone service, high-speed Internet access, data transmission technology, and cable TV to residential and business customers via technologically advanced two-way broadband technology was failing. The cable upgrade/broadband build-out was behind schedule, over budget and plagued by serious continuing technical difficulties which were not only slowing the build-out but resulting in very uneven and spotty service to customers who were willing to sign up for AT&T's new bundled telecommunications services. In addition, AT&T had failed to successfully integrate the several acquisitions it had made in recent years and, as a result, was unable to provide customers with single-point sales, service or billing, which completely undercut the goal of effectively and efficiently delivering bundled telecommunication services. Also, AT&T's international business long-distance business, *i.e.*, its Business Services division, was suffering horrible operational problems resulting in very bad service to major customers and the loss of many large multi-national customers resulting in a huge revenue shortfall there. Finally, AT&T's Wireless unit was not nearly as successful as was being claimed due to service and technical difficulties there as well, which was resulting in a sharp slowdown in new subscriber growth. This combination of problems spelled doom for Armstrong's plan to transform AT&T into a global telecommunications conglomerate providing bundled telecommunications services. Thus, by 1/00, Armstrong began to discuss completely reversing his strategy and breaking up AT&T into separate operating companies. By 2/00, the problems continued to grow worse to the point where Armstrong and AT&T's other top executives realized that breaking up AT&T was the only way to go and they were preparing submissions to the Board of Directors to approve pursuit of that reversal of strategy. However, because Armstrong's wildly ambitious acquisition binge and the expense of the broadband build-out had resulted in AT&T's corporate debt ballooning to over $62 billion, AT&T's top executives knew by late 99 that the Company was facing an impending cash flow problem. Given AT&T's huge debt load, it was imperative that AT&T find some way to raise billions of dollars of new capital. The only feasible vehicle to obtain this capital was a public offering of the AT&T Wireless tracking stock. However, if AT&T reversed its bundling strategy and disclosed its intention to break

up into four companies, AT&T's stock price would fall and the price of the Wireless IPO would be adversely affected. And, if Armstrong and AT&T's top executives broke up AT&T prior to that IPO occurring, then AT&T would not be able to get its hands on the IPO proceeds. Therefore, in order to successfully complete the Wireless IPO and raise the billions of dollars needed to keep AT&T afloat, Armstrong and AT&T's other top executives continued to conceal their plan to break up AT&T into separate companies and continued to lie about the purported success of their strategy to transform AT&T into a global telecommunications conglomerate that could effectively and efficiently deliver bundled telecommunications services to residential and business customers. In fact, after the AT&T Wireless IPO, and notwithstanding assurances that most of the AT&T Wireless IPO proceeds would be used only for expansion of the Wireless business, AT&T corporate took possession of most of the IPO proceeds to use them for AT&T's general corporate purposes. And, in fact, when AT&T disclosed it was breaking up into four companies on 10/25/00, AT&T's stock fell from $25-3/4 to $21-5/8 and the AT&T Wireless tracking stock fell from $23-7/8 to $20-1/4, *i.e.*, both falling by just over 15% due to this very negative news.

BACKGROUND TO THE CLASS PERIOD

95. By mid-99, investor enthusiasm for Armstrong's re-invention of AT&T began to sour. Some analysts voiced fears that these dramatic steps were not only not spurring AT&T's growth and profitability in the short term, but that AT&T might never recover these huge diversification investments. Because of AT&T's acquisition spree, the number of AT&T common shares outstanding had ballooned to over 3.2 billion – raising the specter of serious ongoing earnings dilution. Coupled with AT&T's increased debt and its need to continue to spend billions of dollars to upgrade its cable and wireless assets, this made the prospects for AT&T achieving substantial profit growth – at least in the near term – uncertain. In fact, in 8/99, AT&T told analysts to lower the 99-00 revenue growth forecasts for AT&T, and AT&T's revenue growth slowed during 99 and its EPS declined.

96. By the Fall of 99, investors and analysts realized that AT&T's ability to accelerate its revenue growth and increase its EPS remained very much dependent upon the performance of AT&T's core long-distance business, which still provided over 70% of AT&T's revenues and profits. While AT&T's ***consumer*** long-distance business was suffering revenue declines due to intensive price

competition, AT&T's ***business*** long-distance operations (especially international business long distance) were still achieving revenue growth. AT&T's business long-distance operations (domestic and international) were conducted by its Business Services unit – ***AT&T's largest single business unit, which alone provided more than 45%-50% of AT&T's revenues and profits***. To accelerate the growth of AT&T's international long-distance business, AT&T formed a huge new joint venture with BT – ***Concert*** – to focus on furnishing communications services to large multi-national corporate customers. Concert was described by AT&T as follows:

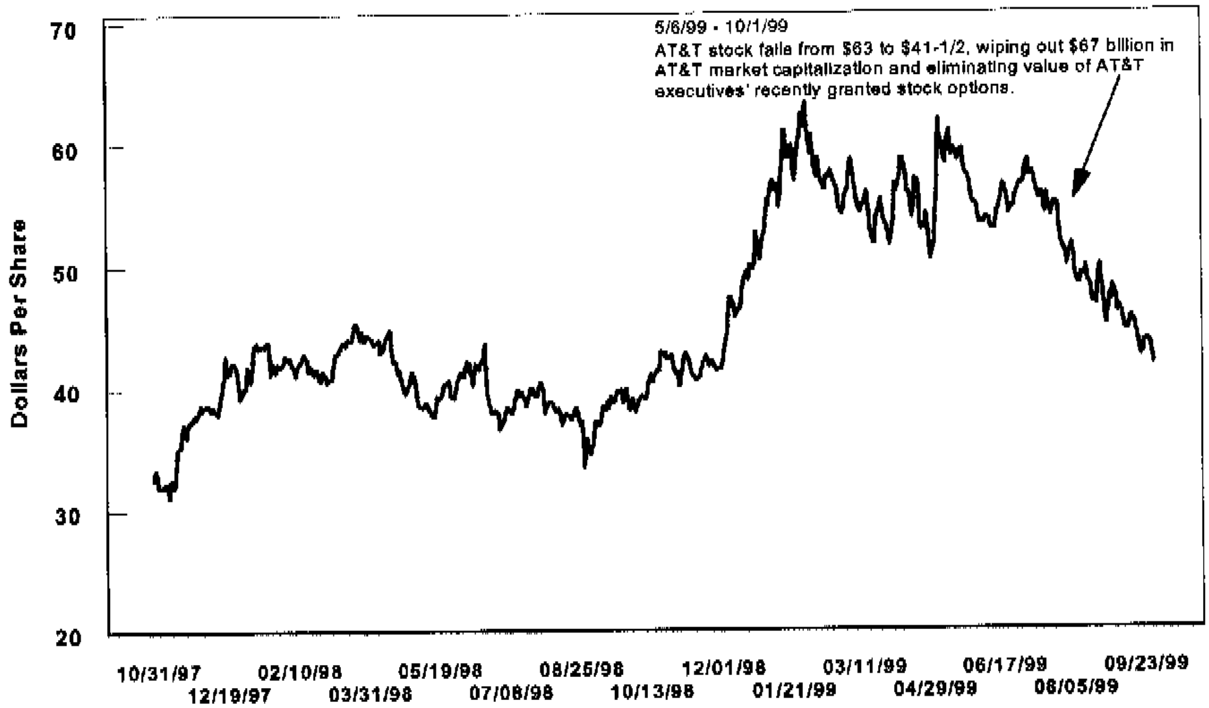
> AT&T's partnership with BT has created Concert – a leading global telecommunications company. ***Concert represents the core of AT&T's global strategy and will serve multi-national business customers, international carriers, and Internet service providers.***

Concert began operations in 10/99. The reason why AT&T's global business long-distance operations were so important was explained by an 11/5/99 Prudential Securities report:

> AT&T's global strategy is coming into place with the final approvals for its joint venture with British Telecom.... To maintain large business customers, carriers have to be able to serve those customers around the world. ***Winning in the large corporate market is key for two reasons – scale and growth.***
>
> These customers bring significant volumes to the table which helps spread fixed costs over a large base, lowering overall unit costs. Moreover, these companies are among the most intense users of data services, the fastest growing segment of the telecom industry.

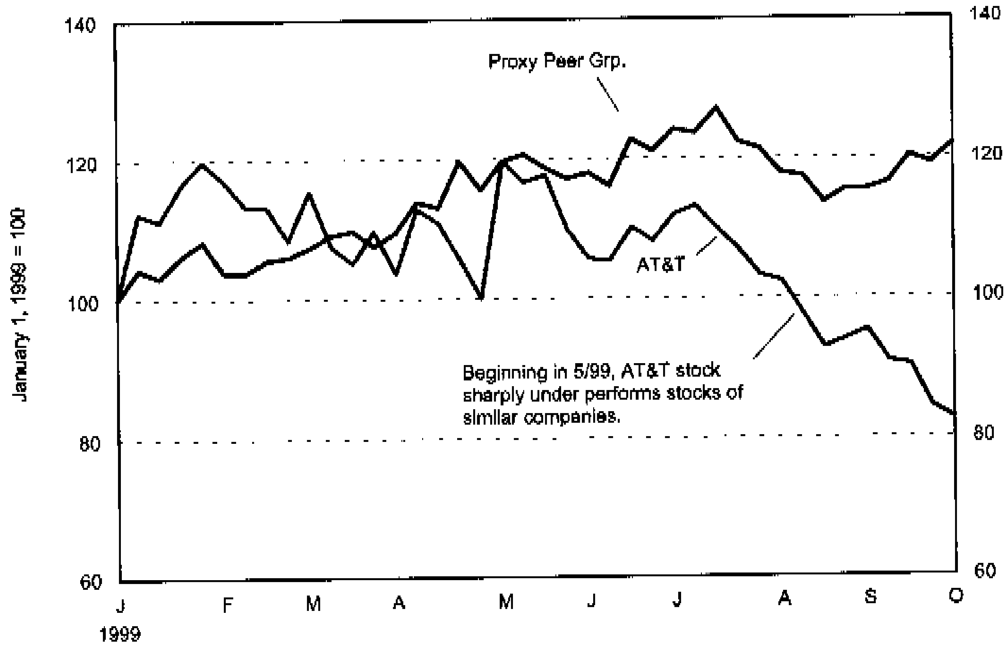
97. However, during the 2ndQ and 3rdQ 99, AT&T's business long-distance revenue growth slowed to 7% in the 2ndQ and then to 5% in the 3rdQ. Partly as a result, AT&T reported disappointing 3rdQ 99 results and slowing overall revenue growth (5% down from 7%) and ***declining*** EPS. The slowing growth of the largest operating unit of AT&T's business was very disturbing to investors and AT&T stock declined sharply to $41-1/2 by 10/1/99. This precipitous decline, which wiped out $67 billion in shareholders' market capitalization, is shown below:

AT&T Corporation
October 31, 1997 - October 1, 1999
Daily Share Prices



As a result of this decline, AT&T stock ***badly*** under-performed the stocks of comparable companies during 99, as shown below:

AT&T Corp.
vs. Proxy Peer Group (1)
January 1, 1999 - October 1, 1999



(1) Equally weighted group consisting of BEL, GTE, SBC, USW, HKT, WCOM, FON, VOD, CMCSA & CVC.

Because of the widespread ownership of AT&T common stock and the prominence of the Company, these distressing events were the source of negative media coverage about Armstrong and AT&T in 8/99-10/99 and caused great concern among AT&T's individual and institutional shareholders, as well as embarrassment to Armstrong, as they threatened his continued tenure as AT&T's Chairman/CEO.

98. Thus, by 8/99-10/99, Armstrong and his top management team found themselves in a dangerous and disturbing situation. AT&T's huge acquisition of MediaOne, which had been agreed to in 4/99 when AT&T's stock was trading at $57, had only been accomplished when AT&T had won a bitter bidding war by agreeing to a price guarantee, so that if AT&T's stock fell below $57 and to as low as $51, ***AT&T would have to pay up to an additional $3.6 billion in cash to MediaOne's shareholders***. Unfortunately, AT&T's efforts to close its acquisition of MediaOne during 99 when its stock price was over $57 failed due to regulatory delays and it appeared that AT&T would not be able to close the MediaOne acquisition until in the 1stQ 00. The precipitous decline of AT&T's stock in the Fall of 99 triggered the potential $3.6 billion AT&T price guarantee on the MediaOne

acquisition. This placed tremendous pressure on AT&T's top executives to push AT&T's stock back up above $57 per share during the 1stQ 00 – when AT&T now hoped to close the MediaOne acquisition. In addition, to try to help overcome the poor performance of AT&T's common stock, AT&T's top executives had decided to issue a new class of AT&T common stock, the AT&T Wireless tracking stock, and then sell that tracking stock to the public in a huge IPO. This IPO would generate over $10 billion of badly needed capital for AT&T. It would also create a valuable asset for AT&T which AT&T could use to raise additional capital and to help fund its ongoing acquisition spree, as the poor performance of AT&T common stock had reduced its attractiveness as a currency to use for acquisitions. AT&T's executives also believed the public sale of the Wireless tracking stock would boost AT&T's common stock by helping quantify and solidify the "sum of the parts" valuation of AT&T, which many securities analysts engaged in and which Armstrong insisted to investors and analysts alike yielded a value of $79 per AT&T common share. However, in order to successfully complete this tracking stock IPO (which was to be the largest domestic IPO in history – 360 million shares at $29-$30) it was imperative that AT&T's overall business, of which AT&T Wireless was a key part, appear to be performing well and that AT&T's common stock perform well.

99. The serious problems facing AT&T and Armstrong in 8/99-10/99 were the subject of extensive coverage in the financial press. For instance, the 8/9/99 edition of *Barron's* published a very negative story about AT&T and Armstrong:

> ***Wall Street certainly has had its doubts about Armstrong lately. After pacing the Standard & Poor's 500 Index last year, AT&T's stock has sadly underperformed***
> ....
>
> It's easy to see why investors got excited in the early months of Armstrong's reign.... Upon taking charge of Ma Bell ... he promptly moved to bolster profit margins in the flagging long-distance operation, ***slashing 20,000 jobs***. Then he began a breakneck makeover of the company, spending $12 billion in January 1998 on Teleport Communications Group, which provides local telephone service. That deal was followed in short order by the $53 billion purchase of TCI Group, the behemoth cable TV company. In July of last year came a $10 billion joint venture with British Telecom in worldwide telephony. Then, in December of last year, he paid $5 billion to buy IBM's global network.
>
> Just after the TCI deal closed, Armstrong embarked on a flurry of activity in April that managed to overshadow even the astounding deals he pulled off during the previous 12 months.... [H]e offered $62 billion for cable company MediaOne Group, thwarting a bid by Comcast.

* * *

During a recent 4 p.m. visit to his offices in Basking Ridge, New Jersey ... he steered us to a Merrill Lynch report that shows AT&T to be worth at least $79 a share based on the value of its assets. The market may not buy this argument yet, but Armstrong seems to feel it will – eventually.

* * *

Thanks to AT&T's acquisition binge, it now has 3.28 billion shares outstanding, up from 2.71 billion a year ago. Partly as a result, second-quarter earnings dropped to 49 cents a share from 54 cents a year earlier.

Debt has also risen sharply. An $8 billion offering in March was one of the biggest of all time. To fund the MediaOne acquisition, AT&T arranged for a $30 billion credit line. In all, AT&T liabilities have soared to $63 billion, nearly double the $34 billion in debt that the company had last December.

* * *

Armstrong is moving to stem the stock's decline.... [H]e is trying to convince investors that AT&T has turned into the quintessential growth stock, not the steady, dull dividend-payer that was cherished for decades by widows, orphans and value investors.

* * *

Armstrong continues to meet with investors to plug his message that AT&T is a growth stock.

100. A 10/4/99 *Wall Street Journal* article stated:

Discussion inside AT&T on whether to create tracking stocks stems largely from frustration over the company's swooning stock price. When ... Armstrong took the helm ... he launched a stunning series of acquisitions that totaled $140 billion, buying Tele-Communications Inc., the leading cable company; IBM's global data network; and Teleport Communications Group, which provides local phone service to businesses, among other things .... ***Despite initial enthusiasm on Wall Street for Mr. Armstrong's bold moves, the company stock ... has flagged as of late....***

... The stock has been down more than 25% from its high earlier in the year.

The shares have fallen this year in part because of concerns about the cash-intensive nature of the wireless and cable ventures. There are worries that the costs involved with both those businesses will affect the company's earnings and revenue.

101. The 10/18/99 edition of *Business Week* contained another critical article on AT&T and Armstrong, which stated:

When C. Michael Armstrong arrived as CEO two years ago, he could do no wrong. He lifted the moribund giant out of years of stagnation and charged ahead with a strategy to move AT&T into fast-growth markets. But something has gone awry. The company's long-distance business is crumbling faster than expected, and Armstrong's bet that cable is the way out is hitting snags.... Armstrong has ponied up $110 billion

to acquire two cable companies and will have to spend an additional $7 billion spiffing up the networks – ***mega-money that has Wall Street in a stew that AT&T will never see a payoff.***

... AT&T stock, which had been on a tear since Armstrong's arrival, is in a swoon. Shares have tumbled 27% from their high in January, to $46 5/8, slashing AT&T's market capitalization by about $55 billion ....

Suddenly, the seemingly indomitable Armstrong is on the defensive. Some have begun to question whether he will pull off his radical plan for transforming AT&T.

* * *

Armstrong will need every bit of that to make up for troubles in the long-distance business, where AT&T still gets 72% of its revenues.... The result: Revenues in the consumer long-distance market will decline as much as 5% this year, concedes Armstrong. ***At the same time, he says, growth in business long distance will slow to 7% or less, compared with the 9% that analysts were expecting.***

102. By early 10/99, AT&T stock fell to as low as $41-1/2. The precipitous decline of AT&T's stock in the Fall of 99 triggered the potential $3.6 billion AT&T price guarantee on the MediaOne acquisition and placed tremendous pressure on AT&T's top executives to push AT&T's stock back up above $57 by the 1stQ 00 – when it now hoped to close the MediaOne acquisition. The stock decline also wiped-out the value of the options to purchase hundreds of thousands of shares of AT&T stock which had recently been granted to AT&T's top executives. In addition, to try to overcome the poor performance of AT&T's common stock, AT&T's top executives had decided to issue a new class of AT&T common stock, the AT&T Wireless tracking stock, and sell that stock to the public in an IPO. This IPO would generate some $10 billion of badly needed capital for AT&T. It would also create a valuable asset for AT&T in the form of the tracking stock shares, which AT&T could use to raise additional capital and use to help fund its ongoing acquisition spree, as the poor performance of its common stock made it much less desirable as an acquisition currency. AT&T's executives also believed the public sale of the Wireless tracking stock would boost AT&T's common stock by helping quantify and solidify the so-called "sum of the parts" valuation of AT&T, which many securities analysts used and Armstrong insisted yielded a value of $79 per share. ***However, in order to successfully complete this tracking stock IPO at a high per-share price, it was imperative that AT&T Wireless and AT&T's overall business (of which AT&T Wireless was a key part) and its common stock perform well.***

FALSE AND MISLEADING CLASS PERIOD STATEMENTS

103. Beginning in late 10/99 when it reported its 3rdQ 99 results, AT&T commenced a campaign hoping to boost the price of it stock, making statements to boost the price of AT&T's stock in connection with, in contemplation of, and to further the Wireless tracking stock IPO it was then planning. When AT&T reported its 3rdQ 99 results on 10/25/99, Armstrong told analysts that "management is executing two of our commitments as we have been demonstrating over the last seven quarters, ... ***that the company continues to improve its competitiveness [and] that our investments are beginning to respond with growth.***" He also said Business Services had a "***reasonable revenue performance in the quarter,***" "we have ***continued strength in international and data [transmission]***" and "***the good news is ... we're keeping our customers.***" During the same call, John Stieglitz (AT&T's President), in describing AT&T's "global business," *i.e.*, international long distance, said AT&T had made "***lots of progress in [its] international activities this year.***" AT&T also assured analysts that the broadband build-out/cable upgrade project was on schedule and on budget. However, AT&T reported a very disappointing net subscriber gain of only 269,000 – far less than the 450,000-500,000 forecast. But AT&T attributed this to one-time events – AT&T's reduced marketing efforts in some major markets that were capacity constrained and handset shortages – assuring analysts of the "***high quality of our subscriber base***" and that the Wireless business was ***well positioned for a large acceleration in net adds in 4thQ 99, and that 4thQ 99 net adds would exceed the 437,000 new customers added in 4thQ 98.*** Dan Hessy, President of AT&T's Wireless unit said, "***on the churn side, churn was pretty flat, it eeked up just a little bit .... But you know, we're talking about tenths of a point ....***"

104. On 10/26/99, PaineWebber issued a report on AT&T by Struminger, which was based on and repeated information provided him in the 10/25/99 conference call and in follow-up conversations with top AT&T executives. It stated:

> * Stronger than expected Q3 results and our expectation that AT&T will give guidance of double-digit revenue growth in 2000 at the December 6 analyst meeting makes us more optimistic about near-term stock performance than we have been ....

* * *

> Wireless continues to be the engine of AT&T's growth contributing 73% of pro forma consolidated revenue growth. ***However, results were mixed: ... steep declines in net subscriber additions were troubling. Churn was up by 10 to 20 bp, and we will need to keep an especially close eye on this metric ....***
>
> ... ***Internally generated net subscriber adds were disappointing at 269,000, just over half of the 500,000 net adds we were estimating for the quarter and a 17.4% and 43.2% decline from the Q3'98 and Q2'99 levels, respectively.*** The sharp falloff was primarily attributable to the following in order of significance: 1) a reduction of marketing efforts in some major markets (notably New York) as AT&T worked to add additional capacity; 2) an increase in the churn rate; 3) some handset shortages. ***These problems are one-time in nature and management states that the company is well-positioned for a large acceleration in net adds in Q4.***

105. On 10/26/99, Morgan Stanley issued a report on AT&T by Flannery, which was based on and repeated information provided in the 10/25/99 conference call and in follow-up conversations with top AT&T executives. It stated:

> – It appears that the long distance business performed better than expected during the month of September. Business and consumer revenue growth was slightly better than we had expected.
>
> – ***On the negative side ... the wireless business had a surprising slowdown in net adds.***
>
> * * *
>
> AT&T's wireless business continues to be a very strong growth driver for the company ....
>
> ***The one weak spot was net additions which came in at a fairly disappointing 269,000 subscribers. This was 17% below year ago levels and 43% below the levels of the second quarter.*** The company attributed this weakness to less aggressive marketing due to capacity constraints in certain markets, as well as a handset shortages [sic]. ***Despite this, the company believes that fourth-quarter net additions will be ahead of the 437,000 new customers added in the fourth-quarter 1998.***

106. On 10/28/99, Legg Mason Wood Walker issued a report on AT&T by Zito, which was based on and repeated information provided in the 10/25/99 conference call and in follow-up conversations with top AT&T executives. It stated:

> Wireless. Subscriber growth of 269,000 was lighter than usual with respect to 325,000 adds in 3Q98 and 473,000 adds in 2Q99. ***The slowdown was attributed [to] network capacity constraints and handset availability issues driving the decision to deliberately curtail marketing campaigns in several markets. Frankly, we believe this decision offers tremendous insight into AT&T's management capabilities.***
>
> ***Rather than just adding more subscribers and compounding the network congestion issues, AT&T took a step back to move forward faster. The company believes both these issues have been cleared up and has re-ramped advertising. Subscriber growth is expected to return [to] the previous levels, particularly in the***

seasonally strong 4Q and our full-year revenue growth expectations remain at over 40%....

Broadband.... ***The cable plant upgrade is on schedule*** with 44% of the TCI plant being two-way capable and 52% at 550+ mhz, on track for 51% and 54% by year-end, respectively.

107. The statements made by AT&T in connection with the release of its 3rdQ 99 results were false and misleading due to the serious operational problems then existing in AT&T's Business Services unit and AT&T's loss of major international corporate customers from that unit due to the service and sales problems at Business Services, as well as the worsening competitive position of the Business Services unit, all as detailed at ¶¶48-64. The statements about AT&T Wireless were false and misleading because the low new subscriber numbers were not due to one-time events or AT&T's decision to reduce marketing efforts, but rather, to poor service and other operational problems. Nor was AT&T Wireless positioned to achieve strong subscriber growth in the 4thQ 99 and, in fact, to artificially boost its reported subscriber growth it was inflating its subscriber numbers and subscriber growth by the TOA scheme, detailed at ¶¶85-91.

108. On 11/1/99, *Interactive Week* from ZDWire ran a story on AT&T, stating:

AT&T isn't just having problems on land. Numbers for the giant's high-flying wireless business are coming down, according to third-quarter figures AT&T released last week.

While AT&T Wireless Services counts an impressive near-12 million total subscribers, its net additions from the third quarter were 290,000, down about 17 percent from the previous year. In comparison, Sprint PCS, a leading nationwide wireless provider, reported 720,000 additional subscribers in the third quarter.

* * *

Still, AT&T Wireless remains bullish on its future reports. "We are building back inventory for the fourth-quarter holiday season, and we have fixed the issues that we've had," said Ken Woo, an AT&T spokesman. Woo said AT&T Chief Executive C. Michael Armstrong has quoted a 40 percent growth target in the wireless market and expects fourth quarter numbers to be strong due to the traditional buoyancy of the holiday season.

109. On 11/1/99, *Warren's Cable Regulation Monitor* carried a story on AT&T, stating:

ARMSTRONG INSISTS LOCAL TELEPHONY ISN'T DELAYED

Answering charges that AT&T has been slow to deploy local telephony with its own plant acquired from TCI and hasn't signed telephony agreements with other MSOs it had promised last year, Chmn. Michael Armstrong insisted Oct. 25 that AT&T was on track.

Armstrong said he wanted to "***refute flat out ... reports that our cable plans have suffered setbacks.***"

110. On 11/10/99, AT&T issued a release headlined and stating:

AT&T Business Network Gives High Growth With Companies Integrated Services ...

... AT&T today announced AT&T Business Network, an unparalleled combination of integrated services, electronic servicing capabilities and savings opportunities that ***will dramatically improve the way high-growth businesses manage and use communications.***

AT&T Business Network features a whole new level of customer service designed to meet the needs of emerging and high-growth companies that rely heavily on communications to run their business. The "***one integrated experience***" of AT&T Business Network includes:

– ***A fully integrated range of communications services – local, long distance, international, wireless, data and IP – all from one company, with one contract, one bill and one point of contact for customer care. Customers can easily add new services or change their service mix at any time as their business grows, their needs change or technology evolves.***

* * *

AT&T Business Network services are in controlled introduction now, with a range of capabilities slated to be rolled out through 2000.

"Customers have told us that they're tired of constantly negotiating contracts, receiving countless bills, dealing with multiple communications companies, and worrying about how to integrate the next new technology into their service mix," said Michael Keith, president, AT&T Business Services. "***Today, we're eliminating all those concerns. We're taking customer service to a whole new level.***"

"We're delighted to bring this combination of simplicity, flexibility and value to the companies that play such a vital role in fueling the U.S. economy," Keith said. "***AT&T Business Network is so complete and so integrated, it's the only communications service you'll ever need.***"

111. During the week of 11/12/99, AT&T held a press briefing in Denver, Colorado to discuss its cable upgrade/broadband build-out. Defendant Somers, AT&T's CFO and acting head of AT&T's cable/broadband operations, told members of the press that:

- AT&T's broadband build-out was on schedule and under budget.
- Cost breakthroughs in equipment and improved technology would enable AT&T to push per home costs from $850 to $590 and lower.

112. On 11/15/99 and 11/22/99, *Cable World* ran articles about AT&T that stated:

Dan Somers and a handful of top AT&T BIS executives recently held the company's version of meet the press.

* * *

A second message concerned cost breakthroughs with new IP telephony technology, which would allow AT&T to provision local phone and data service from new terminals mounted to the outside of customer homes. Mission accomplished.... [T]he company sought to assure the press it's on target with rebuilds and telephony rollouts.

* * *

In recent weeks, *Business Week* and *The Wall Street Journal* ran "where's the beef" stories questioning the success of AT&T['s] cable phone strategy. Those stories spurred AT&T's show and tell press session.... "I do expect improved performance next year over this," Somers said. "This game will be won on the streets of America. My job is to deliver back to the parent what they expect."

* * *

[T]he promise of new technology that will lower the costs of delivering circuit switch and IP telephony ***were chief among the topics highlighted at an AT&T BIS press briefing in Denver last week.***

* * *

Also, Somers and AT&T BIS telephony reported a breakthrough in equipment and technology costs that could push per home telephony costs from \$840 to \$590. And that figure could drop further with IP advancements that may allow AT&T to roll out interim IP telephony products.

113. During 11/99, Armstrong told analysts and large AT&T institutional shareholders that AT&T would present extremely favorable information about its business – including its Business Services operations – at AT&T's upcoming 12/6/99 analysts' meeting, including forecasting accelerating revenue growth for AT&T's business long-distance operations, as well as its overall business, in part due to its new Concert joint venture, and that AT&T would thus achieve ***accelerating revenue and profit growth overall*** in 00. They also told analysts that AT&T had decided to undertake an IPO of a Wireless tracking stock. As a result, after bottoming at \$41-1/2 in 10/99, AT&T's stock advanced strongly during 11/99.

114. On 11/22/99, it was revealed that the MediaOne acquisition closing would likely not take place in the 1stQ 00, but rather, early in the 2ndQ 00 and that AT&T had decided to go forward and issue its Wireless tracking stock. AT&T stock surged higher on this news. On 11/22-23/99, *The Wall Street Journal* reported:

A slight delay in the closing of the merger – and the creation of a tracking stock – might work to AT&T's favor. Since AT&T announced plans to acquire MediaOne,

> its stock has fallen more than 23%, driven partly by concerns about its softening long-distance business. On Friday, AT&T was down $1 cents [sic] to $46.5625 at 4 p.m. in New York Stock Exchange trading. The sagging stock price affects how much cash out of pocket the company has to fork over at closing. At its current level, AT&T would wind up paying an additional $3.4 billion in cash for MediaOne under terms of the deal, further increasing the impact on its bottom line of its $110 billion in cable purchases.
>
> * * *
>
> AT&T Corp.'s stock surged 12% in regular trading – its biggest one-day gain in a decade – on word that the phone giant is moving closer to issuing a tracking stock for its booming wireless operations.
>
> In volume at twice its normal trading levels, AT&T's stock shot up $5.50, closing at $52.0625 at 4 p.m. in New York Stock Exchange composite trading. The price marks its highest level since August. In recent weeks, AT&T's stock has remained stubbornly down despite a rebound in the stocks of most telecommunications companies and a strong market.
>
> Monday's stock jump exceeded even the 11% stock lift that AT&T received in September 1995, when it announced that it would break up the company, spinning off its NCR computer business and its telephone-equipment arm, which became Lucent Technologies Inc.

In addition, it was rumored that Salomon Smith Barney analyst Jack Grubman – the most influential telecommunications analyst on Wall Street and a long-time bear on AT&T – had been meeting with AT&T executives, was re-evaluating his opinion on AT&T and was preparing a new, positive report on AT&T, causing the stock to surge further. By 11/29/99, AT&T stock had recovered to as high as $61 per share.

115. On 11/30/99, Grubman issued a research report on AT&T upgrading AT&T to a Buy. Grubman issued this report only after several personal meetings and/or conversations with Armstrong and other top AT&T executives, who provided Grubman with the information in the report and assured him of its accuracy. Grubman's report stated:

> ***We are upgrading AT&T after extensive analysis that has resulted in a strong comfort level with the economics and technology of the cable upgrade and due to our belief that the stock is cheap at current prices*** .... We look at fundamentals, not financial engineering, and we now believe that AT&T has the ability to drive fundamental financial performance with its cable upgrade as well as what will be an ongoing change in revenue mix in AT&T's core businesses.

Grubman's report forecast the following results for AT&T's Business Services segment (in billions):

	1999	2000	2001
Business Franchise			
Revenues	$29.0	$31.7	$34.7
EBITDA	$ 9.4	$11.9	$14.0

* * *

Beyond 2001 Growth, Visibility Is High

It is important to note that if one looks at 2001 revenues, excluding wireless, it could be argued that 70% or more of the revenues are coming from areas – either the business franchise or broadband – ***that should be able to sustain double-digit top-line growth. Thus, even with consumer [sic] continuing to decline, AT&T without wireless should be able to sustain 7%-8% top-line growth. Furthermore, peak capital spending will be behind AT&T in 2001; the start-up costs and losses associated with telephony, cable modems, and other activities will also be behind it***; and the consumer long distance business may, by the end of 2001, at least hit its low point in terms of declining growth. ***The aforementioned items, along with continued cost cutting and efficiencies, should propel AT&T to be able to sustain 15% or more growth in cash EPS off of 7%-8% top-line growth, given changing revenue mix, increasing efficiency of the network, and deleveraging below the line.***

Time To End Our Four-Year Bearishness

We have been a bear on AT&T for four years. Except for a few moments here and there, we were comfortable with our rating during this time period. Over the last year, the overwhelming issue in our minds was the technological feasibility and economic return potential of the cable initiatives, since we have always felt strategically that the cable initiatives are in fact the right thing to do. ***Thus, now that it has been proven to us that the technology works, that the operation appears scalable and that the return potential is there – on top of what AT&T is doing with its IP backbone, Teleport, its clear conviction on cost cutting, and other areas of growth – we are ready to upgrade the stock with a Buy rating ....***

Net/Net

We believe that AT&T clearly has the scale and scope of facilities, customer connectivity, and balance sheet to be one of the major telecom behemoths in the industry. Now that we are convinced of the technological feasibility, scalability, and economics of cable initiatives, we are recommending the stock.

116. By the end of 11/99, AT&T stock had recovered to $61 from its low of $41-1/2 on 10/1/99 – ***a $60+ billion market cap increase in less than 60 days***! On 12/6/99, AT&T issued releases and held an analysts' conference in New York City. One release formally announced AT&T would seek shareholder approval for creation of a new class of AT&T common stock – AT&T Wireless tracking stock – as part of an IPO of that stock. AT&T also issued a release headlined and stating:

AT&T Refocuses Business Services to Spur Revenue Growth

... AT&T is realigning the units that market services to corporate accounts to exploit opportunities in its fast-growing Internet, data and managed-services segments.

"We have made significant investments in our data, Internet and AT&T Solutions businesses over the past year," said AT&T Chairman C. Michael Armstrong. ***"Today's moves will assure that we're translating those investments into customer value with increased speed, clarity and innovation."***

* * *

Additionally, to capitalize on increasing demand from its more than 600 leading accounts for customized networks and industry-specific networking offers, Armstrong announced that the company's Global Sales organization, which delivers complex networks to large, multinational corporations, will be directly aligned with AT&T Solutions, which provides network consulting, integration and outsourcing.

117. In another AT&T release issued on 12/6/99, AT&T stated:

AT&T today appointed Daniel E. Somers president and chief executive officers of AT&T's Broadband and Internet Services unit.

Somers, 51, who was also AT&T's chief financial officer, has temporarily led the unit since October.

* * *

At a meeting today in New York of securities analysts, Somers outlined his plans for AT&T's broadband unit.

* * *

"Broadband represents tremendous upside potential for AT&T. With creatively packaged and priced telephony, high-speed Internet access, innovative TV-based applications, and solutions for small business, we have a breadth and depth of services that no other company can match," Somers said.

Broadband Telephony

This year AT&T successfully conducted market trials of broadband telephony in eight markets, and is now selling bundles of local and long distance service on a single bill to customers in 13 cities in those markets. Customer satisfaction and network quality have consistently been high.

Upgrade at AT&T's cable plant is on schedule ....

118. On 12/6/99, AT&T issued another press release, which stated:

About the AT&T Common Stock Group

"AT&T is now better positioned for growth," said Armstrong.

119. On 12/6/99, AT&T held its largest analysts' meeting in history – an all-day presentation by AT&T executives at the Waldorf Astoria to some 800 analysts. AT&T's presentation by

Armstrong, Zeglis, Noski, Somers and Roscitt was very upbeat and bullish. They stressed that Concert – AT&T's joint venture for worldwide long-distance business service – ***had been successfully launched*** and that, as a result of a successful reorganization and re-staffing of AT&T's Business Services long-distance operations, ***AT&T was now forecasting its Business Services revenue growth would accelerate to 9%-11% during 00 – compared to 7% in 99***! This forecast of accelerating revenue growth in AT&T's largest business unit – which generated over $25 billion in revenue per year – was a key component of AT&T increasing its overall corporate revenue growth forecast to 8%-9% for 00, compared to 6%-7% in 99. These upward adjustments were very material – ***as they amounted to over a billion dollars of additional revenue for 00 and hundreds of millions of dollars of profits***! At the conference, AT&T (Armstrong, Zeglis, Noski, Roscitt and Somers) stated to the some 800 analysts present:

- AT&T was continuing to cut costs and was eliminating 25% of its executives as part of saving an additional $2 billion in costs.

- AT&T had made very good progress with its Concert global joint venture with BT. The operational close "had been completed" and the joint venture successfully launched.

- AT&T had realigned the units in its Business Services that marketed long-distance and data transmission services to corporate accounts to help speed revenue growth.

- To capitalize on increasing demand from its 600 largest corporate accounts, AT&T's global sales organization, which focused on large multi-national corporations, had been aligned with AT&T Solutions, part of AT&T's Business Services unit. This would also help accelerate Business Services' revenue growth.

- AT&T's cable upgrade/broadband build-out was on track and under budget.

- AT&T's revenue growth was accelerating and would continue to accelerate in 00.

- AT&T Wireless subscriber growth was strong – the quality of its subscriber base was high and subscriber growth in 00 would be 20+%.

- AT&T's ability to transform from a domestic long distance company to an any-distance, any-service global company was right on track.

- AT&T would keep a continued focus on integrated bundles – long distance integrated with other services such as WorldNet, local, local toll, cable, and wireless. Bundles result in higher customer satisfaction, reduced churn, incremental product revenue and new customers. Bundles deliver a 30%-50% "save" rate, reducing churn.

- AT&T was in the early stages of a pivot from a long-distance business to an any-distance business. AT&T would attract and retain high-value customers through bundles.

- AT&T's Business Services revenues would grow 9%-11% during 00 – a significant increase over the 7% growth rate in 99.
- AT&T expected total revenue growth in 00 to accelerate to 8%-9%.
- AT&T forecast 00 EPS of $2.10-$2.15.

120. Analysts were very impressed with the positive nature of AT&T's analysts' conference, describing it as:

> *"[V]ery upbeat and encouraging.... [B]y far the most impressive AT&T meeting ... in the last five years."*

CIBC World Markets.

> *"Very upbeat."*

Deutsche Banc Alex. Brown.

> *"Upbeat."*

Prudential Securities.

> *"Upbeat."*

PaineWebber.

> *"Upbeat."*

Janney Montgomery Scott.

> *"Impressive."*

Lehman Brothers.

> *"Confident tone."*

DLJ Securities.

The realignment of AT&T's Business Services unit, the success of the Concert joint venture and the accelerated revenue growth prospects of AT&T's business long-distance, *i.e.*, its Business Services unit, was very important to analysts and was favorably reported by them to the markets.

121. On 12/7/99, CIBC World Markets issued a report on AT&T, which was based on and repeated information provided at the 12/6/99 conference and stated:

> *AT&T held a very upbeat and encouraging analyst meeting yesterday. Management reiterated previous financial guidance of 2000 EPS of $2.10-$2.15 ....*

* * *

The cable broadband upgrade is on track and under budget.

* * *

AT&T held a ... positive meeting ... yesterday .... Importantly management also reiterated previous financial guidance of 10%-12% revenue growth....

This was by far the most impressive AT&T meeting that we have attended in the last five years.

122. On 12/7/99, Deutsche Banc Alex. Brown issued a report on AT&T, which was based on and repeated information provided at the 12/6/99 conference and stated:

* *AT&T held a very upbeat analyst conference, which strongly reinforced our bullish outlook on both the company's strategy as well as its execution ....*

* * *

* *Overall ... top line growth for 2000 should be in the 8%-9% range.*

* * *

The net effect of the session was a strong reinforcement of our bullish outlook on both the company's strategy as well as its execution of that strategy. Perhaps the day's most important event was verification of the company's long-rumored issuance of a tracking stock for its hugely successful wireless business. ***We see this development as highly positive ....***

123. On 12/7/99, PaineWebber issued a report on AT&T, which was based on and repeated information provided at the 12/6/99 conference and stated:

* *AT&T held an upbeat analyst meeting ....*

* *The company gave financial guidance of 8-9% top-line growth and $2.10-2.15 in EPS for 2000.*

* * *

BUSINESS SERVICES

AT&T announced a restructuring of the Business Services unit to bring together the "classic" Business Services, AT&T Solutions and the IBM Global Network. The benefit of this integration is to align the network management and transport business to increase the overall penetration of AT&T services in the corporate segment. ***This should be most effective in the large enterprise segment, which is increasingly demanding customized networks.***

124. On 12/7/99, Lehman Brothers issued a report on AT&T, which was based on and repeated information provided at the 12/6/99 conference and stated:

AT&T hosted an impressive analyst meeting ... highlighting the ongoing shift of the company toward growth businesses ....

> ... AT&T has aggressively reinvented itself to focus on the growth markets of telecom and ***accelerate the overall growth rate.***

125. On 12/7/99, Dresdner Kleinwort Benson issued a report on AT&T, which was based on and repeated information provided at the 12/6/99 conference and stated:

> AT&T gave analysts an extensive review of its operations ... and provided guidance on 2000 expectations .... ***We believe that management made a strong case for its strategic moves ....***
>
> Wireless Services
>
> AT&T intends to take its wireless unit public in spring 2000 as a tracking stock.... We believe the tracking stock is a positive, insofar as it gives AT&T a new currency to make acquisitions both in the US and overseas.... ***Management expects subscriber growth of 21%-24%.***
>
> * * *
>
> Financial Outlook
>
> ... Management continues to be confident it can take a further $2 billion in costs out of the business in 2000.... EPS expectations are in the range of $2.10-$2.15 ....

126. On 12/7/99, Janney Montgomery Scott issued a report on AT&T, which was based on and repeated information provided at the 12/6/99 conference and stated:

> ***AT&T held an upbeat analyst meeting yesterday, with the focus on accelerating growth ....***
>
> * T will create a tracking stock for its wireless business ....
>
> * Advantages of the tracking stock are the creation of a currency for acquisitions ....
>
> * * *
>
> * Projected EPS of $2.10-$2.15 ....
>
> * Revenue growth for 2000 for T overall is expected to be 8%-9%, up from 5%-7% this year .... Components are ... ***business at 9-11% .... For ... business ... this represents a meaningful acceleration.***

127. On 12/7/99, Jeffries & Co. issued a report on AT&T, which was based on and repeated information provided at the 12/6/99 conference and stated:

> ***Management offered guidance on 2000 expectations that was slightly ahead of what we had been looking for. While we continue to expect 8%-9% revenue growth next year, we now anticipate pro forma EPS of $2.15, resulting from accelerated cost cutting measures and higher revenues.***

* * *

We are raising our pro forma 2000 EPS estimate from $2.10 to $2.15 to reflect greater cost efficiencies and increased revenues.... ***For 2000, we are raising revenues from $62.6 billion to $67.4 billion, as the company ... accelerates its top line growth rate as a result of several of the initiatives announced yesterday.***

* * *

We anticipate total business services revenue will grow 9%-11% in 2000.

* * *

Robust growth anticipated – In the mobile wireless services unit, we are estimating ... subscriber growth of greater than 20% ....

* * *

Update on Cable and Broadband

Still on schedule – Management remains confident that at least 51% of the Company's cable plants will be upgraded by year-end for two-way transmission, ***with roughly 85% anticipated by the end of 2000.***

128. On 12/7/99, ING Barings issued a report on AT&T, which was based on and repeated information provided at the 12/6/99 conference and stated:

* From AT&T's standpoint, we believe the issuance of a wireless tracking stock is a strong positive, as it should enable AT&T to: 1) unlock the value of its wireless businesses by creating a separately traded entity; [and] 2) create a currency for AT&T to acquire other wireless assets/investments ....

* Moreover, the planned IPO should give AT&T substantial capital ....

129. On 12/7/99, Prudential issued a report on AT&T, which was based on and repeated information provided at the 12/6/99 conference and in follow-up conversations with top AT&T executives and stated:

* ***... The meeting was upbeat and positive ....***

* As expected, AT&T formally announced it will issue a tracking stock for its wireless unit in 2000.

* * *

We Believe The Analyst Meeting Was A Success. This highly anticipated meeting outlined objectives for each of AT&T's business units, leading to overall revenue growth acceleration in 2000 to the 8%-9% range from about 6% in 1999. ***This continued revenue acceleration is the key to unlocking the value of AT&T as a whole.... Everything at the analyst meeting suggested that AT&T is on track to meet those expectations.***

* * *

In 2000, AT&T expects to achieve 8%-9% revenue growth in total, with 9%-11% in its business segment ....

130. On 12/7/99, ABN AMRO issued a report on AT&T by Roe, which was based on and repeated information provided at the 12/6/99 conference and stated:

As anticipated, AT&T announced plans to issue a tracking stock for its wireless assets. Looking ahead to 2000, management expects ... subscriber growth of 21-24%.

* * *

As we have mentioned before, the creation of a wireless tracker will better enable AT&T to crystallize the value of its wireless assets .... ***Management indicated numerous times throughout the conference that it intends to aggressively pursue acquisitions to expand its U.S. footprint .... However, acquisition targets are not limited to the domestic market, as management indicated it has an increased appetite for further international acquisitions (with a direct focus on Latin America and Asia).***

* * *

The company also gave assurances that the network upgrades are on budget ....

131. The financial press reported the 12/6/99 analysts' conference in a very positive manner. On 12/7/99, *The Wall Street Journal* reported:

AT&T Corp. Chairman C. Michael Armstrong ***talked up the phone company's prospects*** in a daylong session with analysts, ***promising stronger revenue growth ....***

Mr. Armstrong boosted the giant phone company's revenue-growth target to as much as 9% for next year from as much as 7% this year, reflecting his optimistic appraisal that AT&T is transforming itself into a communications powerhouse.

He also confirmed that AT&T next spring will offer the public ... a new wireless tracking stock in what could be this country's largest initial public offering. ***He added that the newly created wireless unit will use its stock for acquisitions as it builds out its U.S. and international wireless network.***

* * *

Mr. Armstrong told analysts he remains confident of AT&T's ability to increase its growth rate despite the long-awaited entry of the regional Bell companies into the long-distance market.

132. These statements made by AT&T in 10/99-11/99 and in connection with its 12/6/99 analyst conference regarding AT&T's Business Services corporate long-distance segment, its

broadband build-out, its ability to effectively and efficiently deliver broadband telecom services and the performance of AT&T's Wireless unit, as well as AT&T's accelerating revenue growth were false.

(a) As further detailed in ¶¶48-64, as part of AT&T's cost-cutting drive and the reorganization of AT&T's Business Services operations, AT&T had eliminated or transferred numerous experienced multi-national corporate account representatives at the same time that it had transferred 300 major corporate customers to Concert and 1,200 very large corporate accounts internally to its "high growth" Business Services unit. ***These transfers of AT&T's most important international corporate accounts, combined with the firing or reassignment of a large number of corporate account representatives, was a disaster, immediately resulting in serious sales and customer service problems.*** The lack of experienced account representatives and sales personnel caused important large corporate customers to be neglected and poorly served. Many large international corporate long-distance customers were enraged over these failures and by 12/1/99-1/1/00 told AT&T they would abandon or were abandoning AT&T's long-distance (voice and data transmission) business. These problems also resulted in a rapid erosion of AT&T's low-speed private-line business and a sharp slowdown in its wholesale voice revenues, which were dependent on this same customer base. These problems in AT&T's key Business Services unit were exacerbated by AT&T's loss during 99 of two large U.S. government long-distance contracts (the FTS 2000 contracts) and a huge ($650 million per year) BP Amoco PLC contract, which kicked in in late 99 and early 00, depriving AT&T of millions of dollars of previously in-place revenues. As a result of these negative factors, AT&T's competitive position was impaired and AT&T and Armstrong knew by 10/25/99 that AT&T's Business Services unit's revenues were being materially adversely affected, as AT&T had not successfully replaced the hundreds of millions of dollars in annual yearly revenues lost due to the FTS 2000 and BP Amoco contracts, and its Business Services revenues were being hurt by large corporate international corporate customer defections. ***Due to these negative factors, defendants knew by 10/25/99 that the representations about the success of AT&T's Concert joint venture and its business long-distance service and the accelerating revenue growth of AT&T's Business Services division were false.*** Also, by late 1/00 or early 2/00, AT&T's Business Services corporate long-distance operations had deteriorated so seriously that AT&T was in the process of ***replacing several***

of the top managers in that Business Services unit in an effort to correct the problems being encountered there – which were resulting in the loss of significant numbers of important corporate customers.

(b) The subscriber growth rate and "net adds" of the AT&T Wireless unit were overstated, as managers in the AT&T Wireless unit were causing sales executives to create phony Wireless accounts to inflate the number of new subscribers by way of the "TOA" scam, as detailed in ¶¶85-91. Due to poor service, billing mistakes and inferior technology, AT&T Wireless was encountering excessive "churn," *i.e.*, customers who quit, which greatly increased the net cost of obtaining new subscribers, which was adversely impacting AT&T's results.

(c) The statements about the broadband build-out were false and misleading because AT&T's cable upgrade/broadband build-out was significantly behind schedule and over budget due to the technical difficulties and other problems being encountered, as detailed in ¶¶65-68. AT&T was experiencing several severe problems with the installation/conversion of its cable lines to make them suitable for voice phone calls. By late 99, there was a severe shortage of qualified technicians to perform the conversion. The technology required the technicians to be computer, software, telephone and digital technicians. Not only was there a shortage of qualified workers, but the rapidly changing face of the cable industry required workers to retool continually and costs had escalated far beyond AT&T's initial forecasts, resulting in a larger upgrade cost per household, not a lower cost per household. The development of the cable network was resulting in accidents where AT&T technicians would rupture other utility lines, delaying installation, creating liability to AT&T and further increasing costs.

(d) The statements about AT&T's success in delivering bundled telecommunications services were false and misleading because AT&T's attempt to deliver bundled services of cable, TV, Internet access, long-distance and local telephone and wireless services to customers was failing and could not be achieved due to AT&T's inability to successfully integrate the acquisitions it had made over the prior few years and its inability to efficiently and effectively deliver bundled services to customers, as detailed in ¶¶69-84.

(e) These statements were also false and misleading due to the failure to disclose that AT&T's top executive team was planning to break-up AT&T into three or four separate companies after the AT&T Wireless tracking stock IPO was completed, as described in ¶94.

133. The 1/10/00 edition of *Fortune*, published in late 12/99, detailed the dramatic turn of events based on AT&T's 10/25/99 conference call, its 11/99 publicity campaign and its extremely bullish 12/6/99 analysts' conference:

> ***Mike Armstrong's been winning over Wall Street with a good-news offensive....***
>
> On Dec. 6, AT&T chief Michael Armstrong stood before 800 telecom analysts in New York's Waldorf Astoria ballroom ***and put the crowning touch on his months-long campaign to revive the company's sagging stock price.*** AT&T, said Armstrong, would indeed create a tracking stock for its hot wireless-phone business, raising several billion dollars through an initial public offering .... The news, which already had been carefully leaked to the press during Thanksgiving week, boosted the shares ....
>
> The wireless announcement followed an earlier coup by Armstrong. The previous week, he had finally talked one of telecom's most influential analysts, Jack Grubman at Salomon Smith Barney, into ending his four-year bearishness on the stock and issuing a "buy" recommendation.... Echoing AT&T's own analysis, Grubman concurred that the company could get annual returns on its cable properties approaching 30%, more than twice its cost of capital. On Nov. 29, the very day the report hit the streets, a happy Armstrong told FORTUNE that "***the thing I like about Jack's report is, he talked about the fundamentals of the company, rather than just speculation about the Wireless tracker. It helped [our stock] quite a bit today.***" Indeed the buzz generated by the tracker stock and the Grubman report has boosted AT&T shares to the mid-50s after a disastrous five months in which they fell from the low 60s to the low 40s. ***And as it happens, the recent run turns out to be just enough to save AT&T more than $3 billion on its MediaOne deal, which it expects to close in the first quarter of 2000.***
>
> * * *
>
> Armstrong and his lieutenants say they can get an annual return of between 25% and 30% on their existing cable properties by 2004 .... Dan Somers, AT&T's new cable chief ... says that by the end of 2004 he can double revenue and triple cash flow (or earnings before interest, taxes, depreciation, and amortization) by offering new services such as digital TV, interactive TV, phone service, and high-speed Internet access. He calculates that AT&T will enjoy operating margins of between 40% and 50% on what will be about $22 billion in revenue from AT&T-owned and -operated cable systems. The math shows a rate of return approaching 30% on that $63 billion, with cash flows that increase by nearly 30% a year on average. Very attractive.
>
> "***You will find a huge return on investment,***" says Somers....
>
> ... Until [Armstrong decided on the Wireless tracking stock IPO] doubts about the cable strategy had threatened to cost AT&T an extra $3.6 billion on its MediaOne acquisition, which requires AT&T to pay MediaOne shareholders extra cash if the price of its stock falls below $57 within a few weeks of the close of the deal. On the day news of the tracker stock appeared in the Wall Street Journal, AT&T shares shot